UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
Washington, DC 20250

Notice FC-210

1924-B, 1945-D

For: State and County Offices

Using an Applicant's Repayment Ability as Security for Emergency (EM) Loans

Approved by: Deputy Administrator, Farm Loan Programs

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1 Overview

A Background

FmHA Instruction 1945-D, section 1945.169, requires that each EM loan be secured by chattels, real estate and/or other security and nonessential assets. Additionally, primary security must be available for EM loans, except as provided in Section 1945-D, section 1945.169(g).

B Purpose

This notice:

- reminds approval officials that an applicant's repayment ability may be used under certain conditions when primary security is not available
- stresses the importance of considering an applicant's repayment ability when determining whether adequate security is available for EM loans.

C Contacts

Direct questions about this notice to LMD at 202-720-1632.

Disposal Date	Distribution
August 1, 1999	State Offices; State Offices relay to County Offices

2 Loan Approval Officials' Actions

A
Reviewing Security Requirements

All loan approval officials shall review the security requirements of FmHA Instruction 1945-D, section 1945.169(g). This section states that an approval official may approve an EM loan using an applicant's repayment ability when the following conditions are met:

- adequate chattel and real estate security is not available because of the disaster
- the available security along with the applicant's repayment ability, documented with a sound feasible farm plan prepared in accordance with FmHA Instruction 1924-B, section 1924.56, is adequate to secure the loan.

B
Using Repayment Ability for Security

In those cases where repayment ability is used for security, the approval official shall take steps to protect that security, such as requiring crop insurance, development of a marketing plan, and other steps to help the borrower reduce risk. The plan should also include adequate supervision to monitor the borrower's actions to protect this unusual form of security.

Note: When considering "repayment ability", the reserve or margin between the balance available and the principal and interest scheduled for repayment is the "repayment ability security" for that portion of the loan for which there is no primary security.

A "typical year" plan must show that the portion of the loan secured by "repayment ability" will be paid back in a reasonable period of time, but no later than 3 years from the date the loan is closed according to FmHA Instruction 1924-B.

Example: An applicant's farm appraises for $100,000, the amount of loan needed is $120,000, and there is no other security available.

A "typical year" plan shows that the applicant can reduce the principal on this loan by $7,000 per year for the next 3 years, over and above the amortized installment for the portion of the loan for which there is security. The promissory note must reflect the full installment due, including the additional principle payment to be made each year.

The loan approval official may approve the loan if the loan official is confident that the applicant can carry out the plan and bring the loan to a fully-secured position within 3 years.
